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ABSTRACT

The benefits of postsecondary education and the federal and state roles in providing financial support are discussed. Benefits at the individual level are that educated people earn more, are more productive, and return a portion of their increased income to the government through taxes. Research conducted at colleges often leads to significant innovation and advancement that contributes to the country. In addition, higher education helps support local economies and communities where the campuses are located. States provide the largest share of financial support for postsecondary education, especially to support public colleges and universities. Although states also provide a growing amount of financial aid to students in all postsecondary sectors, states are under increasing pressures to control taxes and to support many different interests. The federal government is the second largest source of financial support for higher education, especially in the form of student financial aid. Support is also provided for purposes such as research and to help the disadvantaged enter and complete college. Besides financial support from federal-state partnerships, funding has come from students and families, endowment, and private and corporate philanthropy. Support of higher education in the future is addressed. (SW)

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A SOUND INVESTMENT

National Student Aid Coalition

June 1985

THE NATIONAL STUDENT AID COALITION

The National Student Aid Coalition provides a voluntary forum for focusing the perspectives and concerns of a variety of interested groups in identifying issues and effectively coordinating national student aid policies among Federal and state agencies and institutions. The Coalition consists of 37 member associations and organizations and five public members.

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HIGHER EDUCATION:
A Sound Investment

A Report of the National Student Aid Coalition
June, 1985

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FOREWORD

In the long run, student financial aid grows out of a confidence in the value of higher education to students as well as society. The partners who combine to provide such aid in the United States—a complex of family, federal, state, institutional and private funds—have so far acted on the assumption that investment in student aid brings good economic return to *both* the individual and the society.

In a time of federal deficits and constraint on domestic spending, such an assumption is necessarily questioned. Can it be demonstrated that a college education is worth the cost? What kind of education brings greater economic return to student or society?

This paper was prepared to provide such evidence as is available. It will come as no surprise that the evidence is both hard to summarize and hard to interpret: we live, after all, in a complex and rapidly changing society. Nor will non-educators be surprised to find that an educational group concludes this: "postsecondary education is a sound investment." What may interest the reader are the detailed reasons given in the report to support this conclusion.

Francis Keppel
Chairman, National Student Aid Coalition

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EXECUTIVE SUMMARY

Introduction

The financing of postsecondary education in the United States is a partnership between government and the private sector, between faculty and students, between parents and alumni. In 1983 over $70 billion was spent by and for colleges and universities in the U.S. While higher education receives funds from many sources, it is the relationships between the funding partners and their dependence on one another that is crucial to the future of higher education and its ability to meet the needs of the nation's people.

The federal government is, of course, a major partner in this financing structure. From the Morrill Land-Grant College Act through the G.I. Bill, to the present system of student financial assistance programs and other avenues of support, the federal government has maintained a continuing interest in promoting higher education.

Questions have been raised in recent years about the return that the federal government and the other financial partners are receiving on their investment in higher education. Although economists and others have tried to estimate the rate of return on the dollars invested, there is good reason to believe that the benefits derived from higher education resist traditional economic measures and that cost/benefit analyses are inappropriate for this purpose.

For example, an economist with the Brookings Institution argues that higher education is not structured to be judged in this manner:

> An educational system geared single-mindedly to the maximization of economic benefits would be radically distorted from a social and educational point of view.

The Benefits of Postsecondary Education

In recent years, a succession of U.S. Presidents has praised the idea of postsecondary education and has called for a continuing federal commitment to the postsecondary enterprise. This support has been based on the knowledge that higher learning benefits not only the student, but the nation as well. These benefits to the nation are twofold. First, there are the general economic benefits that derive from educated citizens who earn more, are more productive, and who return a portion of their increased income to the federal treasury in the form of taxes. Second, are the benefits derived from the research conducted on college campuses that often leads to significant innovation and advancement in scholarship, knowledge, and other aspects of the nation's life.

In addition to the benefits students and the nation receive, higher education helps support local economies and the communities where colleges are situated. Recent studies in New England, California, and Pennsylvania illustrate the value of the higher education enterprise and the importance of including these benefits in any calculation of the return on the postsecondary investment.

The Partnership

States provide the largest share of financial support for postsecondary education—nearly one-third of higher education's total revenues. While most state money for higher education is spent to support public colleges and universities, states also provide a growing amount of financial assistance to students in all sectors of higher education.

But state support is fragile. States are coming under increasing pressures to control taxes—their principal sources of revenue—and to divide the discretionary portion of their budgets among many different interests, while trying to hold the line on spending.

The federal government is the second largest provider of public funds for higher education. While the bulk of this money is devoted to student financial assistance programs, the federal government also supports research on college campuses, the improvement of campus facilities, the encouragement of low-income and minority youth to attend and graduate college, the furthering of developing institutions, efforts to encourage military veterans to attend college, and other programs that help all sectors of postsecondary education.

There is much evidence to suggest that federal and state support of higher education are linked—that the actions of one may influence the decisions of the other. The federal government cannot, reasonably, look to the states to achieve the goals of access and equity that it has set as the cornerstone of its policies towards higher education. By the same token, the states are in a much better position to react to local conditions and to serve the needs of individual colleges and constituencies.

Students and families are also important partners in financing postsecondary education. Tuition and fees, primarily paid by students and parents, are major sources of revenue for the nation's colleges. In recent years, the average parental contribution, as compared with other sources of student support, has been increasing. In order to continue their role in the financing partnership, parents need to save more and make use of all available sources to help meet the costs of college.

The private sector—philanthropies, corporations, and individuals—all help contribute to the economic well-being of the postsecondary enterprise. Higher

education is only now beginning to draw on the potential for support from the corporate sector—in the form of "high-tech" equipment in addition to cash contributions. Higher education needs the continued and increased support of individuals, foundations, and corporations to further enhance the funding partnership.

Looking Toward the Future

Postsecondary education in the United States is facing new and greater challenges. As America moves from an industrially based economy into the information age, the demand for new skills and for trained personnel will continue to grow and to move in directions that could not be anticipated a few short years ago.

Nobel laureate Wassily Leontief has identified higher education as a key to our ability to keep pace with the rest of the world in the development and management of these new technologies. As he has said:

> Taking into account the characteristics of modern technology, we can safely assume that the need for highly trained cadres will increase even faster (than in the past).

The continued vitality of the financing partnership is crucial to the future of higher education and its ability to meet the challenges before it. Without a continued federal role, the partnership will be in danger of collapsing. It is important to remember, though, that the federal government is not being asked to go it alone. As President Truman's Commission on Higher Education stated in 1947:

> The role . . . for the federal government is that of a partner—a partner jointly responsible with the states and localities for attaining the goals of higher education.

It is the strength of this partnership that has aided higher education's growth since 1947 and that will ensure its position in the future. The postsecondary partnership is based on symbiotic relationships—where each partner contributes something of value and receives something valuable in return. It is the nature of these relationships that justifies each partner's decision to invest in higher education.

Postsecondary education is a sound investment for all parties and it deserves the continued support of all of its partners. As Howard Bowen concludes, "the cumulative evidence leaves no doubt that American higher education is well worth what it costs."

Chapter I: INTRODUCTION

"The financing of postsecondary education in the United States is a responsibility shared by students and their families, government at all levels, philanthropic organizations, and the institutions themselves."
(National Commission on the Financing of Postsecondary Education, 1973)

Postsecondary education in the United States is a multi-billion dollar enterprise. In fact, in 1983 over $70 billion was spent by and for colleges, universities, and other postsecondary institutions. While the basic mission of postsecondary education is to educate students, institutions also produce great volumes of research, maintain facilities that are used by persons both on and off campus (hospitals, for example), and provide other services to students, faculty, and the communities in which they are located.

Postsecondary education is truly a partnership between government and the private sector, between faculty and students, between parents and alumni. No single source of support for higher learning stands alone; all depend on each other and all are affected by fluctuations in the levels of support provided by the other partners.

As Figure 1 illustrates, the financial partnership in the postsecondary enterprise is spread among several entities. While government is a major partner in the financing of this industry, it is the states, not the federal government, that provide the lion's share of support for postsecondary education. State support is primarily focused on direct appropriations for public colleges and universities and financial aid to needy students. The role of the states will be discussed in greater detail in Chapter III.

FIGURE 1
Revenues of Institutions of Higher Education, 1980–81
Total Revenues: $65.5 billion

State Government $20.1 billion
Federal Government $9.7 billion
Tuition and Fees $13.7 billion
Other $3.7 billion
Endowment Income $1.4 billion
Gifts, Grants, Contracts $3.2 billion
Sales and Services $13.7 billion

Source: *Digest of Education Statistics 1983–84*, National Center for Education Statistics, U.S. Government Printing Office, 1984, p. 137.

The Role of the Federal Government

While the federal government is not the primary provider of funds for postsecondary education, it is, of course, an important partner in this effort. Federal support for higher education dates back to 1787, when the federal government allowed some of the proceeds from the sale of public lands to be rebated to land developers for use in supporting universities. Seventy-five years later, the Morrill Land-Grant College Act of 1862 deeded public lands to the states for the establishment of universities.

In 1985, federal support for postsecondary education is primarily associated with the student financial assistance programs. But that is only one slice of the federal pie. In addition to these programs, the federal government provides the largest share of research dollars to colleges and universities, supporting scholarly study and experimentation in numerous fields. The federal government also makes available certain tax incentives that ultimately benefit colleges and schools, sponsors various support programs to increase the access of students to postsecondary education, and maintains its own higher education programs.

The federal government is the largest source of direct student financial assistance, providing over $12 billion dollars annually to students in the form of loans, grants, and work-study awards. States supply an increasing amount of student aid, a total expected to reach $1.4 billion for the 1984–85 school year. Institutions and private organizations (including corporations, foundations, and others) also provide several billion dollars in support for postsecondary students each year.

The primary goal of the federal student aid programs is to overcome the financial obstacles that may prevent or discourage students from pursuing higher learning. Prior to 1965, the federal government had concentrated its student aid efforts on talented students or those planning on specific careers that were deemed important to the national interest. With the passage of the Higher Education Act of 1965, including programs of student grants, loans, and work-study, the nation began to direct its resources towards "removing barriers to individual opportunity."[1]

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As with many other domestic assistance programs, the federal government has been identified as the most effective agent for ensuring that access to postsecondary education is provided in an equitable manner. While states have supported student aid efforts for many years, the federal government has been able to record the most progress in aiding students and in providing access to education beyond high school for those who would not otherwise have the opportunity.

In 1973, the National Commission on Financing Postsecondary Education concluded that it would not be possible to ensure access and equity in postsecondary opportunity without the assistance of the federal government. States, the Commission argued, could not be relied upon to respond to national needs or to establish comparable programs for all students. The states would be expected to have "differing standards of public responsibility for aiding those . . . deprived of educational opportunity because of low income, or racial or ethnic discrimination."[2]

Because most states spend the bulk of their higher education dollars on support for public colleges and universities, and may be forbidden by state statutes or constitutions to provide aid to independent colleges, the Commission also viewed the states as ineffective in assisting the independent college sector. The Commission summed up its view of the importance of the federal role in providing student financial assistance in the following statement:

> Therefore, the federal role, in large part, has been to give direct and indirect encouragement to the training of persons with specific skills that are believed to be in short supply nationally, to attempt to equalize educational assets across state lines, and to provide support that will assist private institutions that serve important educational objectives.[3]

The Role of Student Aid

Student aid, as sponsored by states, the federal government, postsecondary institutions, and private organizations has become an integral part of the financial structure of postsecondary education. As the federal government's student aid programs have grown in the past two decades, so have nonfederal programs. All of the other partners have increased their contribution to needy students and have shown no signs of cutting back on their efforts.

The federal student aid programs reflect the goals of federal involvement in all of higher education. In its 1975 report, the National Task Force on Student Aid Problems stated the following:

> The primary purpose of student aid is to provide financial resources to students who would otherwise be unable to begin and complete the type of postsecondary education they wish to pursue.[4]

In the ten years since that report, the goals of the student aid programs have not changed. For many, student aid may provide a key to the door of postsecondary education and personal betterment.

Accurate measurements of the success of the student aid programs in achieving their intended purposes are very elusive. While more students than ever before are being served by the wide array of student grant, loan, and work-study programs, there is some concern that student aid is not doing enough—that some needy students are still denied postsecondary opportunity because they simply cannot afford it or because they are unaware of the support that they could receive. Of course, the ability to finance one's education is only one of many factors that influence enrollment decisions.

There is encouraging evidence that student aid is effective and that millions of students are attending colleges, universities, and vocational institutions who ten years before would not have had that chance. In 1980, Congress created the National Commission on Student Financial Assistance to examine the federal aid programs and report to Congress and the President on the state of student aid. In one of its final reports, the Commission addressed the overall effectiveness of student aid:

> The studies which the Commission has conducted show clearly that the amount of federal student assistance has resulted in significant progress towards the goal of providing access to postsecondary education for all students, but that more needs to be done.[5]

Measuring the Impact of the Federal Investment

As previously noted, it is very difficult to measure the impact of federal postsecondary programs. Certainly, there are many indications that access to postsecondary education has been enhanced since the federal government increased its commitment to postsecondary learning in the 1960s and '70s. For example, U.S. government statistics show that between 1972 and 1982 minority students increased their representation in the postsecondary population by more than 85 percent (compared to a 35 percent increase in the total number of students).[6]

Other information is not as encouraging. A report prepared for the National Commission on Student Financial Assistance pointed out that between 1969 and 1981 only small gains were recorded in the proportion of college-age Blacks attending postsecondary institutions.[7] The Commission's report on graduate education, *Signs of Trouble and Erosion*, termed the participation of minority students in graduate schools, and especially in PhD programs, "woeful."[8]

Has the federal investment been worthwhile? Have the dollars it has provided for postsecondary training been recouped in the form of tax revenue or other economic returns? These questions are posed in nearly every budget cycle, as if they are the yardsticks against which continued federal support should be

measured.

Traditional economic measures are not appropriate for measuring the return on the postsecondary investment. While some economists have tried to assign a dollar value to postsecondary learning, most have concluded that there are too many intangible benefits that cannot be accurately included in any economic model or expressed in simple dollars and cents.

Michael McPherson, a Senior Economic Fellow with the Brookings Institution, has written that it is only natural to expect that questions regarding the return on the public investment will be raised in discussions of federal funding for higher education. While he believes that "it is fairly safe to say that expenditures for higher education more than pay for themselves," he argues that this is not the proper way to judge the value of federal support. According to McPherson:

> It is reassuring in a general way to know that much of our expenditure on education has an economic "pay-off," and we would view teaching and research quite differently if we had reason to believe that no economic benefits flowed from them. Still an educational system geared single-mindedly to the maximization of economic benefits would be radically distorted from a social and educational point of view.[9]

Thus, in judging the effects of the federal funding of postsecondary programs, one must take care to look beyond the dollar figures and examine the benefits to the nation of an educated citizenry and the benefits to individuals of access to postsecondary opportunities. These benefits, as hard as they are to quantify, are seen every day and are evident in all sectors of the nation. As the following chapter will discuss, not only is it difficult to estimate the dollar value of these benefits, it is also impossible to draw a clear line indicating where the benefits to the nation end and the benefits to the individual begin.

Chapter II: THE BENEFITS OF POSTSECONDARY EDUCATION

If a Nation expects to be ignorant and free in a state of civilization, it expects what never was and never will be. . . . If we are to guard against ignorance and remain free, it is the responsibility of every American to be informed.
(Thomas Jefferson)

In more recent years, United States Presidents, regardless of their political affiliation, have continued to praise the idea of postsecondary education and have called for federal policies to increase the access of all persons to higher learning.

For example, President Eisenhower stated, "We must increase our efforts to identify and educate more of the talent of this nation. This requires programs that will give assurance that no student of ability will be denied opportunity for higher education because of financial need . . ." In his 1965 education message to Congress, Lyndon Johnson pronounced, "Every child must be encouraged to get as much education as he has the ability to take." In 1970, Nixon declared: "No qualified student who wants to go to college should be barred by lack of money." Similarly, President Carter demanded that "we must bring college within the reach of every student in this nation who is qualified for higher education."[10]

This unwavering support for opening the doors to higher learning has been based on the knowledge that postsecondary education benefits not only the student who earns the degree or acquires a needed skill, but that it benefits the nation as well. The benefits to the nation are two-fold. The first is the general economic benefit derived from educated citizens who earn more, have new skills to offer the marketplace, and who return a greater portion of their earnings to the federal government in the form of taxes. The second benefit derives from the studies conducted on college campuses and by college graduates; studies that often lead to innovations and advancements in science, medicine, a wide-range of technologies, and the arts.

Benefits to the Individual

There is no doubt that postsecondary education can enhance the earnings potential of individuals. By acquiring new skills, receiving a degree or certificate that may be required for certain occupations, and expanding knowledge, students benefit directly from postsecondary education in the form of increased earnings and increased opportunities to obtain employment.

However, it is very difficult to judge the amount of economic return to the individual from his or her investment. In addition to the cost borne for tuition, fees, books, transportation, and other expenses directly related to attendance at a postsecondary institution, the student also chooses to forgo income for the time he or she is enrolled in school. While some students may manage to work full-time while attending school, most can only work part-time, usually for low wages, if they are able to work at all.

As with other investment risks, the student is gambling that his or her initial wager of time, money, and effort will show dividends eventually. These dividends may not be evident immediately upon graduation, but may accrue over the full course of the graduate's career.

The U.S. Census Bureau has estimated the lifetime earnings of college graduates versus high school graduates. As the following table illustrates, college graduates can expect, on average, to earn quite a bit more than those who finish their educations at the end of high school. Obviously, there is a substantial difference in the potential earnings of college graduates over their high school graduate counterparts. Although the advantages of a college degree are significant for both sexes, women lag well behind men in the aggregate return on their investment in higher education.

In recent years, some have debated that the return to students on their postsecondary investment is not as great as it was once presumed to be. Richard Freeman, in his book *The Overeducated American*, argues that the value of the college degree has been declining and that graduates should not expect the monetary benefits of higher education to be as substantial as they may have thought. He speaks of the declining "economic value" of higher education.[12]

Six years later, in 1982, Freeman followed up his book in a paper prepared for the National Commission

TABLE: 1—Lifetime Earnings and Level of Education[11]

Sex	High School Graduates	Four-Year College Graduates
Male	$860,000–$1,870,000	$1,200,000–$2,750,000
Female	$380,000–$ 800,000	$ 520,000–$1,120,000

SOURCE: U.S. Bureau of the Census

on Student Financial Assistance. In this paper, he contends that the decline in the value of the college degree has slowed, and that the gap between the potential earnings of college graduates versus high school graduates is widening. Freeman concludes that although college education may not be paying off to the degree that one had hoped, there is room to be optimistic because the value of the college degree is on the rise.[13]

Benefits to the Nation

In his book *Investment in Learning*, Howard Bowen lists the following societal benefits that derive from postsecondary education and institutions:

- The advancement of knowledge, including the preservation of cultural heritage, the discovery of new knowledge, and the satisfactions of living in a world of advancing knowledge.
- The discovery and encouragement of talent.
- The advancement of social welfare, including economic efficiency and growth, enhancement of national prestige and power, progress towards solving social problems, positive improvement in social values and behavior, and progress towards social equality.
- The avoidance of negative outcomes for society.[14]

The outcomes cited by Bowen vary greatly and cover a broad range of topics. It is very difficult, however, to measure these outcomes and to weigh the benefits derived from postsecondary education against its costs.

Some have argued that the benefits of postsecondary education should not be gauged in the context of cost/benefit ratios or quantitative measures. Robert B. Reich, a professor of public policy at Harvard University contends:

> The value of education transcends its economic dimension, of course. Knowledge does not need to be justified in instrumental terms. But in our present period of fiscal belt-tightening, it is well to remind ourselves of the connection between education and our collective well-being. A decline in our citizens' capacity to analyze, innovate, create, and communicate will condemn us all to a meager existence as it impoverishes our cultural and civic life together.[15]

Many who have tried to quantify, or place a price tag on the value of the postsecondary enterprise, have tried to tie higher education to growth in the Gross National Product (GNP) or in the amount of total national income. Howard Bowen cites several studies that attempted this type of analysis and concludes that approximately 3.5 percent of annual growth in national income is attributable to higher education.[16]

The U.S. Congressional Budget Office (CBO) estimates that taxable income in the United States will grow by $1,212 billion between 1984 and 1989.[17] According to Bowen's methodology, a total of $42.4 billion of this growth, or an average of $8.5 billion in annual income growth, can be attributed to postsecondary education.

It is more difficult to quantify the impact of higher education on the GNP. Although most economists would agree that improved labor productivity is the most obvious evidence of the impact of postsecondary education on the GNP, other byproducts of postsecondary education may directly or indirectly help to raise the level of growth in the GNP. For example, education may raise the quality of the labor force, influence the composition of the labor force, increase rates of savings and investment, promote better investments, and improve the management and organization of production.[18]

Measures of income and GNP growth may actually underestimate the impact of postsecondary education on the economy. Michael McPherson contends that "GNP growth is not the only social purpose to which higher education contributes" and should not be the sole measure of its value.[19] McPherson notes that some byproducts of higher education may actually reduce the GNP. A new breakthrough in medical treatment, discovered at a university hospital or laboratory for example, that lowers the cost of health care is, of course, a positive benefit of higher education. Its effect on the GNP, 'hough, may be to lower its rate of growth or even to shrink the income of the health care industry. Thus, although this medical advancement benefits society, its impact cannot be measured through the GNP or other barometers of economic output. McPherson sums up his argument in the following way:

> If education makes people better parents or better citizens, or even better teachers, our output and productivity measures will capture the effect at best only very indirectly, and most likely not at all, even though our society will clearly be better off.[20]

Benefits to Local Communities

In addition to the more general benefits of postsecondary education, there is a great deal of evidence that postsecondary institutions are valuable additions to the states and communities in which they are located. Several studies have been conducted that describe the impact of colleges, universities, and vocational schools on local economies, on the quality of community life, and on the taxpayers that help support students and institutions.

A 1984 report prepared for the California Postsecondary Education Commission described the wide range of benefits that the state derives from its more than 430 independent and public colleges and universities. As the report states, California's colleges and universities "not only fuel the economy by supplying vast numbers of skilled individuals to business and the professions, but also their scholarship enhances all of California life."[21]

The report cites the numerous areas of research

conducted at California schools as a source of great benefit to citizens of the state. The following graphic presentation depicts the wide range of research activities and benefits that flow from these institutions.

Figure 2
How Research Benefits California

Source: California Postsecondary Education Commission

The Commission estimates that California colleges and universities contribute over $30 billion each year to the state economy, nearly eight percent of the gross state product. And, the report points out, these figures do not capture the benefits from the knowledge transmitted to the state's citizens and the taxes paid by California college graduates.

The New England Board of Higher Education released a report in 1982 that expressed concern over the relationship between the "quality of the region's educational system and the performance of the region's economy."[22] The report cites the direct and indirect benefits of higher education to the region and expresses concern that any decline in the quality of higher education will have an adverse impact on the region as a whole.

According to the report, higher education is a key to keeping New England competitive in the emerging "high-tech" industries and in responding to the manpower needs of the 1980s and '90s. In turn, higher education will be crucial to New England as it attempts to maintain its position as a leading region in the country in the face of the shifts in population and industry from the northeast to the southwest.

In 1981, the State of Pennsylvania produced a report entitled *Higher Education and the Economy*. This report compiled an impressive array of statistics that clearly show the impact of colleges and universities on the state's economy.

The report estimates that in 1979–80 higher education contributed over $3 billion to the Pennsylvania economy. As the report notes, institutions of higher education play many different roles in the economy. They act as consumers, employers, investors, property owners, and as sources of state revenues. They also bring money into the state from other jurisdictions; in fact, in 1979–80 higher education brought a net total of almost one-half million dollars into Pennsylvania's economy.[23]

The report was prompted by a concern that Pennsylvania colleges might not be able to maintain their current share of the higher education market and that should this industry shrink in the state, the results on the economy would be very serious. The report concludes with a statement calling on those who have supported higher education in the past to continue and enhance their efforts:

> Those responsible for providing necessary financial support to assure sustained existence and growth of Pennsylvania's facilities for higher education must be kept aware of the economic stakes involved.[24]

Judging the Value of Higher Education

It is clear that postsecondary education benefits individuals, states, and the nation in many different ways. What is also clear is the difficulty in measuring the degree of its impact and in identifying each and every one of these benefits. Traditional economic measures, such as the Gross National Product, cannot capture all of the subtleties of the dividends from postsecondary learning. Invariably, all of these analyses fall short of the mark and are subject to wide margins of error. Some economic measures, such as the estimates of annual national earnings, are able to capture some of the benefits (e.g. increased personal income), but still are ineffective as means for judging the efficacy of the federal investment in higher learning.

Many distinguished scholars, commissions, and government agencies have tried to gain a greater understanding of the benefits of higher learning and postsecondary institutions. While they may not have all approached the question in the same way, their answers are remarkably similar—postsecondary education is a key to the economic, social and cultural future of this nation and its citizens.

As the following chapter illustrates, states and the private sector have joined with the federal government in supporting postsecondary education. Although none of these partners had definitive information on the returns derived from their individual or collective investments, all have provided billions of dollars of support for this enterprise and are showing no signs of altering or abandoning their commitments.

Chapter III: THE PARTNERSHIP

The program of finance (for higher education) should emphasize the need for partnership between the federal government, the states, and local communities in the support of an adequate program of higher education.
(President Truman's Commission on Higher Education)

Postsecondary education depends upon the support of many partners. Because of the wide-range of activities they support, higher education institutions generally receive funding from a number of sources. Federal, state, and local governments, institutions, philanthropic organizations, corporations, parents, and students all contribute to the support of postsecondary education.

State Support of Postsecondary Education

In general, postsecondary education derives the bulk of its revenue from state governments. Of course, the proportion of institutional revenues covered by state funds varies from institution to institution and from state to state. In 1982–83, states spent over $24 billion on higher education, approximately 31 percent of the total revenues of colleges and universities.[25]

Historically, states have directed most of their support for postsecondary education to public institutions. Between 1977 and 1980, state and local appropriations covered approximately 47 percent of the operating costs of public institutions.[26] By 1982, states were providing nearly three-fifths of the revenues received by public institutions.[27]

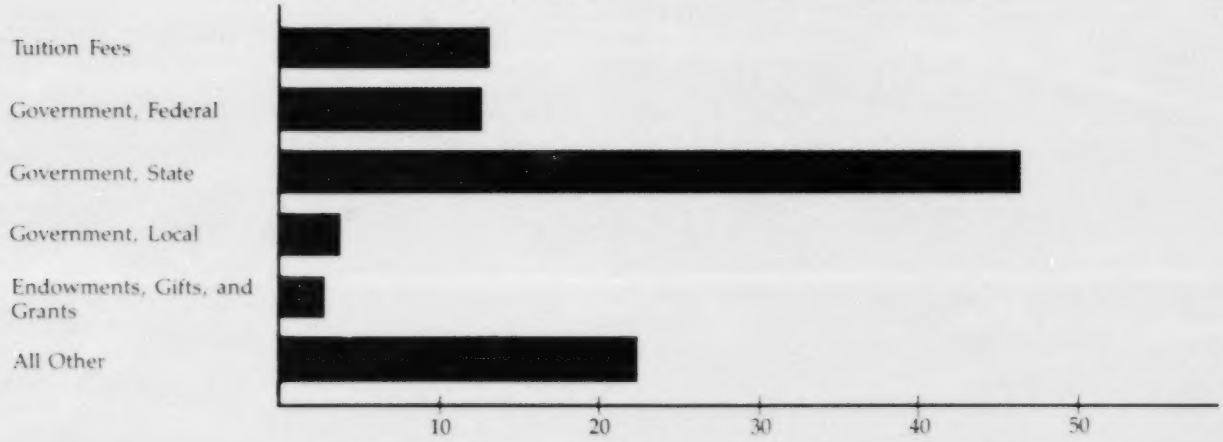
In recent years, state support for need-based student financial assistance has grown at a rate of approximately 10 percent per year.[28] A 1984 survey, conducted by the National Association of State Scholarship and Grant Programs, estimated that states will provide more than $1.4 billion in grant aid to needy students in the 1984–85 academic year.[29] The survey also found that 47 states would be increasing their total pool of need-based aid in 1984–85 by an average of 15 percent over the previous year.[30] Figure 3 illustrates the steady increase in state funding of student aid between 1977 and 1984.

How Stable is State Support?

Despite these increases, some have argued that the states cannot possibly continue to expand their support for higher education. Local economic forces limit the taxing powers of states. Additionally, states are facing increasing pressure to keep their budgets in balance while simultaneously being pressured to provide services that have been reduced or eliminated as part of recent cutbacks in federal domestic assistance programs. At best, state funding is considered by many to be tenuous.

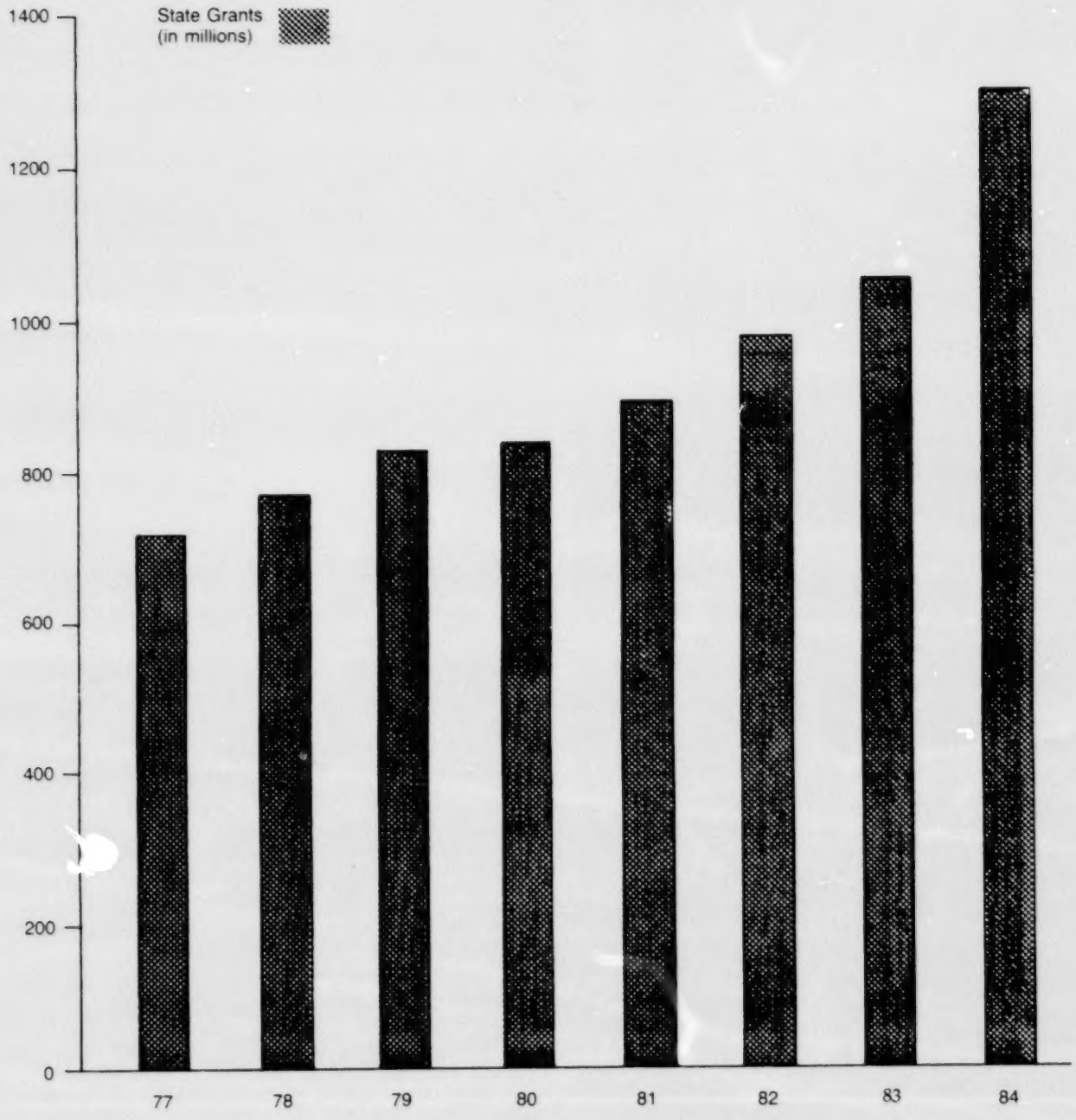
States fund their operations through a variety of sources, all subject to fluctuations in the health of the local economy. In 1980, states and localities collectively raised $949 per capita in tax revenues. The largest source of tax revenues in the states is general sales, which brings in approximately 24 percent of tax revenues. The next largest source is individual state income taxes, which account for 19 percent of tax funds; 17 percent of state revenues are derived from property taxes; and 23 percent from commercial, and industrial property taxes, and other sources.[31]

TABLE 2—Current Fund Revenues of Public Institutions of Higher Education



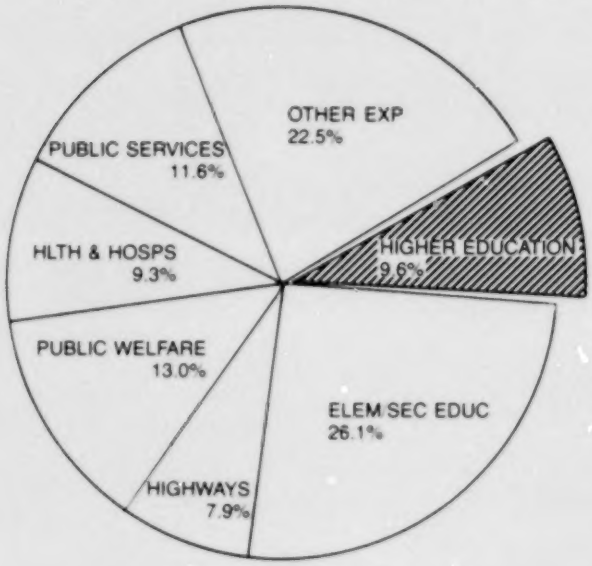
Current Fund Revenues, Public Institutions, 1980–81 (in billions of dollars)
Source: National Center for Education Statistics, 1983

FIGURE 3
STATE GRANTS
1977–1984



Source: National Association of State Scholarship and Grant Programs 1984

FIGURE 4
State and Local Government
Direct General Expenditures by Function 1982



AMOUNT PER CAPITA 1982
$1,914

Source: National Center for Higher Education Management Systems 1984

The spending priorities for these limited resources are also set by local interests. Aid to education often cannot be guaranteed because of the other mandatory programs that states provide, such as health care, public assistance, and the maintenance of public facilities. According to the Education Commission of the States:

> Because higher education funds typically reside in the general operation portion of a state's budget and are not protected by any entitlement requirements, it is a common place to look for savings when budget adjustments are made.[32]

The evidence from a 1982 survey conducted by the National Conference of State Legislators indicates that tightening state budgets are forcing states to consider changing their thinking about student aid.[33] In 1981, more than nine percent of state and local expenditures were spent on higher education; a nearly ten percent increase between 1980 and 1981.[34] However, in real terms, after accounting for 11 percent inflation and a four percent increase in enrollments, per capita state and local appropriations actually declined by five percent per student in the 1981 fiscal year.

The burden on state taxpayers has also been the cause of much public debate in recent years. Several states have adopted referenda that cap or limit state taxing authority, affecting the funding of many state programs. Table 3 summarizes the reductions that have been made in state budgets and shows how education funding fared in relation to the other state programs. In 1983 the budget reductions for postsecondary programs ranged from 15 percent in Ohio to about one-half of one percent in Oregon.[35] After reviewing this information, the Education Commission of the States concluded that higher education could not afford a greater portion of state budget reductions.[36]

The evidence is clear that, although states are currently the primary partner in the financing of the postsecondary enterprise, the exact extent of that role may vary from year to year. It is also evident that the states cannot be counted on to keep up this commitment indefinitely. While the states can be expected to provide a base level of support, especially for public institutions, their ability to fund student aid and other postsecondary programs is not assured.

The Role of the Federal Government

Federal support for postsecondary education traces back two centuries to the Morrill Land-Grant Act and the rise of state universities and land-grant colleges. It was not until the period following World War II, however, that the federal role began to expand at a rapid pace in response to perceived national concerns. For G.I.'s returning home from the service, higher education was seen as a means to ease their transition back into the American economy and to make up some of the debt that the nation owed them for their service during wartime. Millions of Americans owe their access to higher education to the G.I. Bill.

In 1958, shortly after the launching of the Russian Sputnik space satellite, the National Defense Education Act (NDEA) was enacted to help the nation keep pace in the technological and space races. In enacting the NDEA, Congress declared that "the security of the Nation requires the fullest development of the mental resources and technical skills of its young men and women."[37] The goal of the NDEA was to strengthen American education in science, mathematics, and foreign languages. Through the issuance of low-interest loans, authorized by the NDEA, to students who would study in these fields, the federal government employed higher education as a means to strengthen national security.

Growth in the Federal Role

In the 1960s, political leaders began to debate the issue of further assisting higher education and the direction for federal policy in this area. Much of the debate centered around the question of whether to provide aid to colleges and universities or directly to students. Eventually, the Congress settled on a policy that would designate students as the primary beneficiaries of federal assistance. Lawmakers believe that this would produce a more equitable distribution of federal funds and would allow Congress to sidestep the constitutional issues that could arise if federal funds were provided directly to religiously affiliated colleges and universities.

At this same time, the national focus was steadily shifting from concern about national security to concern about opportunity and access. In fact, programs

TABLE 3—Overall Budget Reductions, Higher Education Budget Reductions and the Relation of Higher Education Reductions to Elementary/Secondary Education

	Overall Budget Reduction		Higher Education Budget Reduction		Higher Education Reduction in Relation to Elementary/Secondary Reductions	
	1982	*1983*	*1982*	*1983*	*1982*	*1983*
Northeast						
Connecticut	5.0%	5.0%	5.0%	5.0%	GT	GT
Maine	—	—	—	—	—	—
Massachusetts	—	—	—	—	—	—
New Jersey	—	1.5	—	1.5	—	GT
New York	N.R.	—	N.R.	—	N.R.	—
Pennsylvania	1.0	—	1.0	—	GT	—
Rhode Island	1.2	.6	3.1	.6	LT	LT
Vermont	.7	1.3	.8	2.2	GT	GT
South						
Alabama	N.R.	N.R.	N.R.	2.0	SAME	SAME
Arkansas	4.0	6.0	3.5	7.1	N.R.	N.R.
Florida	1.3	4.5	1.3	4.5	LT	SAME
Georgia	—	2.6	—	2.6	—	GT
Louisiana	—	4.4	—	4.4	—	GT
Maryland	—	—	—	—	—	—
Mississippi	N.R.	N.R.	7.0	1.5	GT	GT
South Carolina	2.2	4.9	2.2	4.9	SAME	SAME
Tennessee	1.5	3.7	1.1	3.3	GT	GT
Texas	—	—	—	—	—	—
Virginia	—	5.0	—	5.0	—	GT
West Virginia	4.5	10.0	4.5	6.0	GT	GT
Midwest						
Illinois	—	3.0	—	3.0	—	GT
Iowa	4.6	2.0	4.6	2.0	N.R.	GT
Kansas	—	4.0	—	4.0	—	SAME
Michigan	N.R.	N.R.	8.4	3.8	SAME	SAME
Minnesota	1.5	4.2	10.9	10.3	SAME	SAME
Missouri	10.0	5.0	10.0	5.0	GT	SAME
Nebraska	3.0	2.0	3.0	2.4	GT	GT
North Dakota	3.1	1.2	2.0	1.7	N.R.	N.R.
Ohio	R	R	5.5	15.0	GT	GT
Oklahoma	—	R	—	4.1	—	SAME
Wisconsin	10.0	12.0	2.0	3.2	GT	GT
West						
Alaska	—	—	—	—	—	—
Arizona	5.0	10.0	5.0	10.0	GT	GT
California	2.0	2.0	2.0	2.0	GT	GT
Colorado	—	2.2	—	2.0	—	GT
Hawaii	—	5.4	—	5.0	—	GT
Idaho	3.5	10.5	3.5	10.5	GT	GT
Montana	—	—	—	—	—	—
Nevada	N.R.	10.0	N.R.	5.0	N.R.	GT
Oregon	N.R.	N.R.	.6	12.5	GT	GT
Utah	—	3.5	—	2.5	—	GT
Washington	N.R.	7.0	N.R.	10.0	GT	N.R.
Wyoming	—	—	—	—	—	—

GT = Greater Than LT = Less than — = No Reduction
R = Reduction, amount unspecified N.R. = Not Reported

Source: Education Commission of the States, Writing Paper #1, 1983
1673—13

promoting access to higher learning were part of the Johnson Administration's "war on poverty" and were included in President Johnson's vision for a "Great Society." It was the intent of these programs to remove barriers to opportunity by assuring that an individual's chances of advancement were not limited by one's economic origins.[38] The enactment of the Higher Education Act of 1965 was the embodiment of these goals, establishing several programs that would "provide financial assistance for students in postsecondary and higher education."[39]

From the beginning, federal monies were designated for disadvantaged students who, without federal assistance, would be unable to attain a college degree. Educational Opportunity Grants, authorized by the act, were to be awarded to students "who showed evidence of academic or creative promise" and who would not "but for an educational opportunity grant, be financially able to pursue a course of study at such institutions of higher education."[40]

The Higher Education Act of 1965 also adopted the concept of providing subsidized loan assistance to needy students by creating a National Direct Student Loan program and a system of Federally Insured Student Loans (that would evolve into today's Guaranteed Student Loan program). In addition, the act continued the College Work-Study program, initiated a year prior as part of the Economic Opportunity Act, and other programs to assist libraries and developing institutions.

The Higher Education Amendments of 1972 marked another milestone in federal support of the student aid concept. The Committee report that accompanied the 1972 amendments spoke of the "need for a comprehensive student assistance program which can guarantee each high school graduate an opportunity to seek a postsecondary education without regard to the economic circumstances of his or her family."[41]

Toward this end, the Education Amendments of 1972 established the Basic Educational Opportunity Grant program (BEOG) to provide a foundation of grant support for needy students and a program of Supplemental Educational Opportunity Grants to further assist these students. The 1972 Amendments also created a federal/state partnership in promoting access to postsecondary education by establishing the State Student Incentive Grant (SSIG) program, authorizing federal matching funds to states for use in providing student aid grants.

In 1976, Congress reauthorized the federal student aid programs and strengthened the foundations laid in 1965 and 1972. The 1980 Education Amendments also concentrated on refining the federal aid effort. In 1980, a new loan program for the parents of dependent students—the PLUS program—was established and a schedule of increased student aid funding was enacted into law. The 1976 and 1980 amendments, as well as the Middle-Income Student Assistance Act (MISAA), adopted in 1978, all contained provisions that fine-tuned the criteria used to determine eligibility for federal assistance.

Throughout the 1980s Congress has been reviewing the federal student aid effort in order to determine its effectiveness and at the same time, has sought ways to reduce the cost to the federal treasury as part of an overall attempt to trim the federal budget deficit. While the Congress has maintained program funding and the basic structure of federal aid, some adjustments have been made in eligibility criteria and administrative regulations.

The Current Programs

Today, the federal government provides over $12 billion in financial aid to postsecondary students. The bulk of this aid is distributed through five federal programs—Pell Grants, Supplemental Education Opportunity Grants, College Work-Study, National Direct Student Loans, and Guaranteed Student Loans—and is awarded according to federally approved definitions of need. While each of these programs are unique, students may receive combinations of awards from several of these programs as part of their financial aid "packages."

Pell Grants

The Pell Grant program is the largest of the federal grant programs. In the 1984–85 academic year, approximately three million students will receive Pell Grants ranging from $200 to $1900. As the following table illustrates, federal funding for Pell Grants has increased over time, although the 1980s witnessed the first drop in Pell funding. Currently, more than twice as many students receive Pell Grants than in 1976.

While the number of students served has increased, the value, or "purchasing power," of Pell Grants has declined sharply. In 1979, the maximum Pell Grant could meet 46 percent of average college costs, while in the 1984 academic year less than one-third of average college costs can be met with the maximum Pell award. According to the American Council on Educa-

TABLE 4—Federal Funding for Pell Grants in Selected Years

Fiscal Year	Dollars Awarded (in millions)	Number of Awards (in thousands)
1976	$ 936	1228
1978	1588	1864
1981	2607	2708
1983	2419	2608
1985	2880	2800

Source: U.S. Department of Education

tion, the purchasing power of the average Pell Grant fell by one-third between 1978 and 1983.[42]

Guaranteed Student Loans

Guaranteed Student Loans (GSL) are becoming an increasingly important part of the federal student aid effort. These loans are disbursed by private lenders (banks, credit unions) and are administered through a joint federal-state partnership. Lenders and students receive federal interest subsidies for these loans, which must be repaid with interest after the student leaves school. In the 1984–85 academic year, over three million students are expected to borrow approximately eight billion dollars through the GSL program. While these loans were once thought of as a supplement to other forms of aid, or only important to middle-income students, recent evidence suggests that even low-income students must borrow under the CSL program in order to fill the gap between other aid sources and the cost of college attendance.[43]

Federal costs for the GSL program are not directly related to the current amount of borrowing in the program. Over 80 percent of annual cost for the program are used to meet obligations on loans made in prior fiscal years. Additionally, GSL costs fluctuate according to the rate of U.S. Government Treasury Bills (which are used to determine the level of lender subsidies). Currently, every one point change in the interest rate on these notes results in an increase or decrease of over $300 million in annual GSL costs. A study conducted by the National Commission on Student Financial Assistance showed that every federal dollar paid into the GSL program results in two dollars of GSL lending.[44]

Figure 5 illustrates the trends in GSL borrowing since 1977.

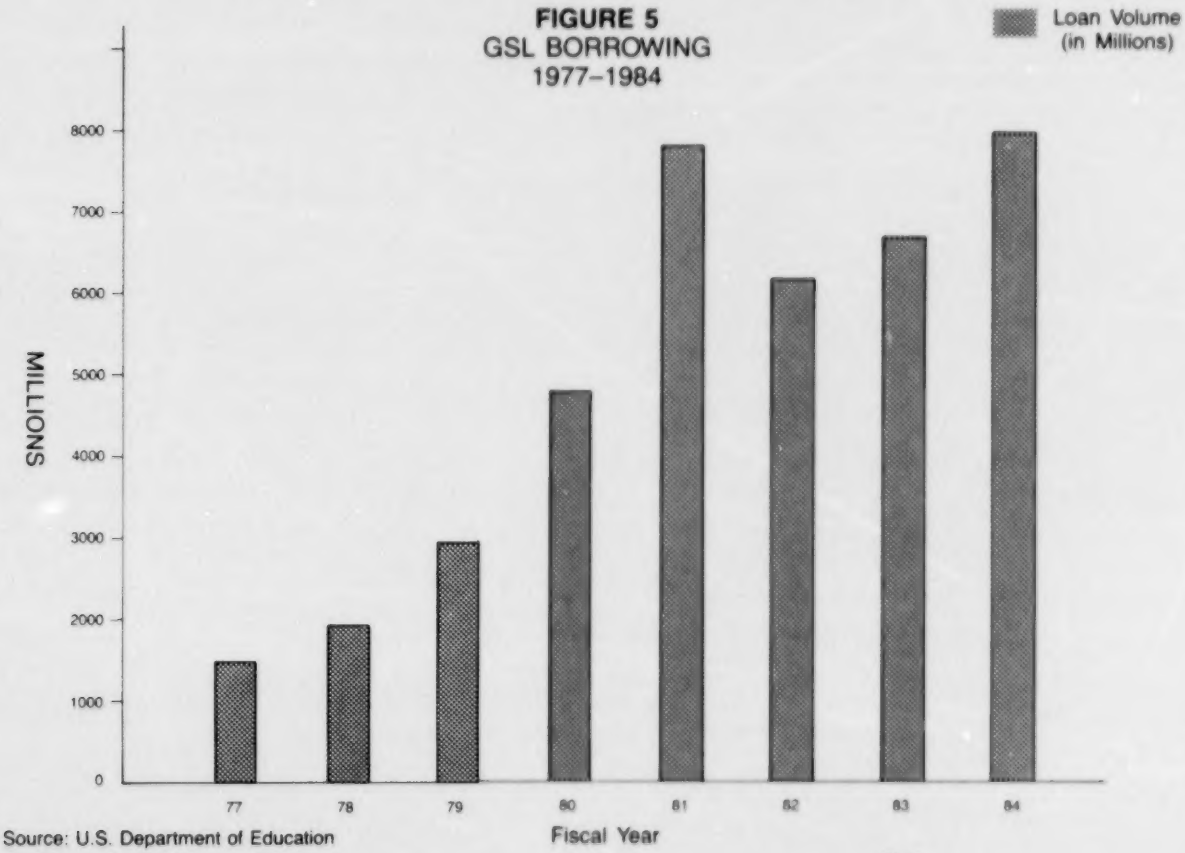
Campus-Based Programs

In 1984, over $1.5 billion was awarded to needy students through the federal campus-based aid programs—College Work-Study (CWS), Supplemental Educational Opportunity Grants (SEOG), and National Direct Student Loans (NDSL). Colleges and schools receive annual allocations of federal funds for these programs which they then award to individual students who demonstrate financial need.[45]

The campuses are partners in more than the administration of these programs. Under CWS and NDSL, schools must provide a proportional match of the federal funds they receive. Institutions submit annual applications for funding under these programs and must also report on how they distributed their campus-based funds. Additionally, campuses operate NDSL "revolving funds," meaning that monies collected from previous NDSL borrowers are re-loaned to new applicants.

Table 5 on following page shows the dollars awarded and number of students receiving aid under the federal campus-based programs in selected fiscal years.

FIGURE 5
GSL BORROWING
1977–1984



Source: U.S. Department of Education

TABLE 5—Dollars Awarded and Students Served by Federal Campus-Based Programs in Selected Fiscal Years

Fiscal year	SEOG dollars (millions)	SEOG students (000)	NDSL dollars (millions)	NDSL students (000)	CWS dollars (millions)	CWS students (000)
1964	0	0	114	217	0	0
1971	134	253	240	452	227	413
1976	201	390	460	690	295	570
1978	243	499	615	795	469	845
1981	366	717	695	813	658	819
1983	355	660	695	810	565	706
1984	355	545	684	883	641	810

Source: U.S. Department of Education

The TRIO Programs

While not specifically created as student aid programs, the Programs for Students from Disadvantaged Backgrounds (TRIO programs) are designed to assist and encourage low-income and minority students to pursue postsecondary educations.

TRIO comprises four programs—Talent Search, Upward Bound, Special Services, and Educational Opportunity Centers. Over 1280 TRIO projects are operated at more than 800 colleges and universities and nearly 70 community centers. In 1983, TRIO programs served nearly half a million students, 65 percent of whom were members of minority groups.[46]

In addition to the direct services that they provide, which include counseling, tutoring, and assistance in the transition to college life, TRIO has been identified as a key component in encouraging college attendance among disadvantaged youth who did not enter college directly out of high school. The National Commission on Student Financial Assistance called TRIO a "valuable supplement to other federal efforts to disseminate student aid information . . . to those least likely to have access to financial aid (information)."[47] In fiscal year 1985, the federal government appropriated $174.9 million for TRIO programs.[48]

Other Federal Programs

The federal government sponsors a number of other programs that benefit postsecondary institutions and students. Among these are programs that provide:

- financial assistance to developing institutions (Title III);
- funds for improving science programs at minority institutions;
- scholarships for international study;
- funds for institutions to establish law school clinical experience programs;
- graduate student scholarship programs;
- scholarships for academically talented students;
- funds to encourage students to enter the teaching profession, particularly math and science;
- funds for cooperative education programs;
- educational benefits to military veterans; and
- college housing and construction loans.

In addition to these programs, the federal government provides several billion dollars each year to colleges and universities in the form of research contracts administered by the Departments of Defense, Agriculture, Transportation, Energy, and other agencies.

The Federal/State Partnership

In concert with the federal government, the states have increased their support of higher learning over the past 20 years. Questions have been raised about the relationship between state and federal funding and policies; are they dependent on each other, or do the wheels of government spin independently?

In 1982, a survey of state legislators concluded that federal money is not a substitute for state support of higher education. Over one-third of the legislators responding to the survey indicated that the existence of the federal programs caused their states to spend more on higher education; 14 percent spent less, and 46 percent reported that it made no difference in the levels of their states' expenditures for postsecondary programs. The study concluded that state spending for education is linked more directly to local political and economic trends than it is to the policies of the federal government.[49]

The National Governors Association described the differences between federal and state policies in funding postsecondary education in a paper, "Student Financial Assistance and State Policy." According to the governors:

> The impact of state and federal financing have been quite different. States spend practically all of their money subsidizing higher education providers, the public institutions, so they can provide their product at low costs to all students. The federal government spends practically all of its money subsidizing consumers by providing a large share of education costs to a targeted group of low income students.[50]

In assessing the role of the states in funding postsecondary education, two points are evident. First, states are, indeed, the major partner in postsecondary fi-

nance, although their resources are not evenly distributed among the postsecondary sectors. Second, it is difficult to predict what patterns of state funding will develop in the future. While it is safe to assume that states will continue to provide a baseline of support for higher learning, there is no assurance that state funding will increase or even continue at the same levels.

There is clear evidence that the states and the federal government are playing an important part in financing postsecondary education, yet they cannot bear the entire burden. Thus, the importance of the partnership is re-emphasized; the continued and enhanced support of other partners is crucial to the future of the postsecondary enterprise.

Support from Students and Families

Historically, the income received from the consumers of education has been an important source of revenue for postsecondary institutions. Although, over the years, the portion of educational costs covered by tuition and fees has declined, institutions still depend on the support of students and families. As tuition costs have risen over the past decade, families, themselves, have had to dig deeper into their pockets to meet educational costs, while, at the same time, institutions, especially those in the independent sector, have devoted more of their resources to assist needy students in meeting tuition and living expenses. In 1985, although private and public student aid programs help many pay for college, families are still an integral component of the financing partnership.

Over $14 billion in tuition and fees were paid to postsecondary institutions in 1980–81, accounting for 21 percent of their current-fund revenue.[51] At independent colleges and universities, families provide 65 percent of the tuition and fees received by these schools.[52]

A basic principle of the student aid partnership is that parents and students should assume a primary responsibility for the financing of undergraduate education.[53] In recent years, the average parental contribution, as compared with other sources of student support, has been increasing. A 1983–84 survey of student aid recipients found that parental contributions have increased as a proportion of total financial aid packages; in 1983–84 the average parental contribution for dependent undergraduate students covered more than one-fourth of the total cost of education at public and independent colleges, as compared to less than one-fifth in 1981–82.[54]

The National Commission on Student Financial Assistance reported that students are working and earning more.[55] Parents, too, are taking steps to increase the amount that they can contribute towards their children's educations. A 1984 survey by the National Institute of Independent Colleges and Universities reported that about 50 percent of parents who expect their children to go on to college are currently saving for their children's education. The other half reported that they could not afford to put money away for their children's future educations.[56]

Parents and students are being asked to increase their share in the postsecondary partnership. All of the evidence suggests that they are providing more funds than ever before and playing a greater role in financing postsecondary education.

Other Sources of Support

In addition to the support they receive from governmental sources and from the consumers of education, postsecondary institutions are tapping into a wide variety of other financial resources. Independent colleges especially rely on their endowments to provide a supplement to the income they receive from tuition, fees, and college services. Institutions also reach out to alumni, the corporate sector, philanthropic groups, and the general public in order to increase their financial bases.

Endowment Income

Some colleges and universities are fortunate enough to have large endowments that provide them with steady sources of income from investments in stocks, bonds, and other financial arrangements that ensure the institution a significant income supplement. Some schools also employ their endowments as collateral for loans or bond issues that are used to finance capital improvements or student loan funds.

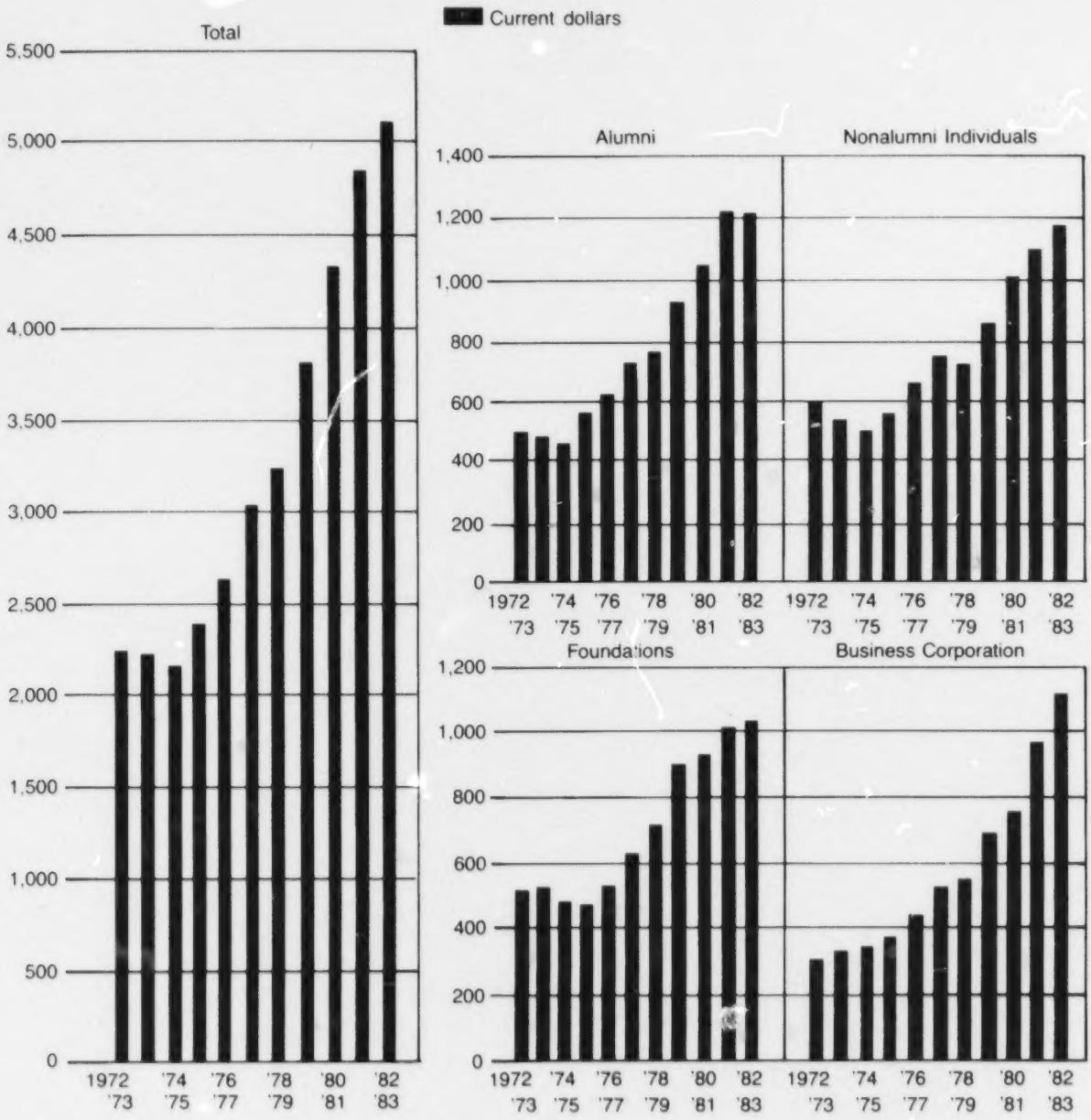
In 1981, nearly $1.4 billion of endowment income was spent by institutions for current operations.[57] Endowment income has increased every year since 1974, but still comprises only three percent of the total current fund income for higher education.[58]

Private and Corporate Philanthropy

Private donations have become a major source of revenue for higher education. A survey conducted by the Council for the Advancement and Support of Education (CASE) estimated that total voluntary support rose $300 million in 1982–83 to an estimated $5.16 billion. Gifts from corporations have more than doubled between 1977–78 and 1982–83; it is estimated that corporate gifts provided almost 22 percent of the total share of private support for 1983 representing nearly a 14 percent increase from 1981–82.[59]

Through fundraising drives, matching grant programs, and equipment donations, institutions have tapped many nongovernmental sources of financial help. Gifts matched by corporations have risen an average of 20 percent annually since 1969, according to the Council for Financial Aid To Education (CFAE). At the 1137 institutions surveyed in 1983 a total of $59 million in gifts of company products were donated.[60] The survey respondents also reported that alumni fundraising drives raise approximately 20 percent of all alumni donations.[61] CFAE estimates that alumni donations

FIGURE 6
Estimated Voluntary Support of Colleges and Universities by Major Sources and in Total
(millions of current dollars)



Source: Council for Financial Aid Education, 1983 Voluntary Support Survey

exceeded $1.2 billion in 1981, and have averaged a nearly 11 percent annual increase since 1974.[62]

Private donations for student aid are increasing at a much slower pace. Such donations are estimated to have increased from $658 million in 1977–78 to $689 million in 1981–82; a five percent total increase.[63] As college costs continue to rise, more support of this type will be needed.

Overall, institutions have done a good job of capitalizing on the interest of the private sector in postsecondary education. Donations from alumni, the corporate sector, foundations, religious groups, and other voluntary contributors generally have increased faster than the consumer price index and clearly demonstrate the private sector's support for higher education.

This combination of sources, from a varied list of partners, is needed to sustain and enhance the quality of higher education. The last chapter of the report looks towards the future of higher education and the need to maintain and strengthen this historical partnership.

Chapter IV: LOOKING TOWARD THE FUTURE

The future of young people and the Nation rests in large part on their access to college and graduate education. For this country reserves its highest honors for only one kind of aristocracy—that which the Founding Fathers called an 'aristocracy of achievement arising out of a democracy of opportunity.' "
(John Fitzgerald Kennedy)

Postsecondary education in the United States is facing new and greater challenges. As America moves from an industrially based society into the information age, the demand for new skills and for trained personnel continues to grow. Twenty years ago, few could predict, for example, the degree to which computers have changed the ways we do business, the ways we manage our governments, and the ways we teach and learn. Twenty years from now, a whole new wave of technological advancements can be expected to once again reorder our lives and redefine our needs for skilled professionals to design, maintain, and improve these new technologies.

The challenge is squarely before the postsecondary enterprise to respond to these changes and, in fact, to be at the forefront of the changes yet to come. As they have in the past, postsecondary institutions will take the lead in encouraging and providing the research and training necessary to keep pace with our changing world.

Nobel Laureate Wassily Leontief, a professor of economics at New York University, has expressed his confidence that higher education will be a crucial factor in this nation's future:

> The continuous uninterrupted creation of well-trained cadres . . . of teachers, research scientists, public administrators, and managers for public enterprise is indispensable for healthy economic growth. . . . The demand for personnel will grow with [the economy]. Taking into account the characteristics of modern technology, we can safely assume that the need for highly trained cadres will increase even faster.[64]

In addition to the need for strong technological leadership, postsecondary education will be relied upon to provide access and opportunity to this nation's citizens. As employers demand more and more skills from their workers, postsecondary institutions must be able to provide young people and adults the chance to acquire these skills.

The ability of postsecondary institutions to provide access is largely dependent on the ability of the partners to maintain and enhance their efforts to remove financial barriers from the road to higher learning. Increasing numbers of students are relying upon public, private, and institutional financial support to meet the costs of education; families, too, are contributing more towards college expenses. Without this support, many potential students would be cut off from postsecondary education and would be unable to compete for the jobs of the future.

Strengthening the Partnership

In order to respond to the coming challenges, postsecondary education will need all of the help it can get from its partners. States, the federal government, private enterprise, philanthropies, students, and families will all have to continue to contribute to the support of postsecondary institutions. As the previous chapters have indicated, postsecondary education is truly a partnership; it is the future strength of that partnership that will determine how well postsecondary education can meet its challenges and maintain its leadership position.

The postsecondary partnership is unique. While other enterprises (e.g., the arts) receive funding from a multitude of sources, there is no parallel to the financial aid packages where all of the sources combine to help support a single beneficiary. Many students receive aid from their states, their schools, private organizations, and the federal government—all neatly tied up to form a financial aid package. As the National Task Force on Student Aid Problems put it:

> Packaging is the moment of truth when it all comes together, where the broad funnel of aid resources comes to its narrowest point and those resources are delivered to the student.[65]

A student can read through his or her award letter, detailing the aid package, and realize that without this mix of sources, without the interest of all of the partners, he or she might not be able to attend the college or school of his or her choice.

There is a great deal of evidence that this partnership is strengthening. State governments have been increasing their support of student financial aid programs—providing more money for needy students as well as for those demonstrating academic excellence. A recent study has also shown that states are providing more funds to their public colleges.[66] Students and parents are paying a greater share of postsecondary expenditures. As tuition charges have risen over the last ten years, families have had to dig deeper into their pockets to meet these costs. Families have also been required to pay more as a condition for receiving federal student aid, while, at the same time, student aid appropriations have not kept pace with increases in

college costs, eroding the "purchasing power" of the student aid dollar.

One area in which the partnership is growing at a rapid pace is in the cooperation between postsecondary institutions and the corporate sector. According to the Association Council for Policy Analysis and Research,

> . . . universities are forging new bonds with major corporations, whose own competitiveness increasingly depends on the scientific, technological, and social science breakthroughs of universities. In 1982, corporations contributed a record $320 million to college and university research development.[67]

Interdependence of the Partners

It is essential to the future of postsecondary education that the partners continue to work together and that they coordinate their actions. In many cases, the ability of one partner to contribute to postsecondary education is dependent on the actions of other partners.

One timely example of this need for cooperative efforts is related to the U.S. tax code and its implications for philanthropy. While foundations and corporations may have lofty goals in mind when they contribute to postsecondary institutions, they are also cognizant of the tax benefits they receive from the donations they make. Tax incentives for donating scholarships, operating revenue, or "high-tech" equipment may not be the basic motive for such giving, but they do encourage this type of philanthropy and provide additional incentives for the private sector to assist postsecondary institutions.

As changes to the U.S. tax code are contemplated, especially under the guise of "tax simplification," it is important to anticipate their effect on giving to postsecondary institutions, weigh their impact on the financing partnership, and consider the consequences of these actions.

In another example, the use of tax-exempt bonds to finance Guaranteed Student Loans has come under increasing scrutiny. Currently, the U.S. Department of Education is attempting to limit the use of these bonds in order to reduce losses in revenue to the U.S. Treasury. In addition, the Department is also considering limiting the use of taxable bonds for this purpose.

By implementing both of these restrictions, the Department may severely restrict the amount of capital available for GSLs and, therefore, inhibit students' access to this important program. More care needs to be taken to ensure that, if the supply of tax-exempt bonds is curtailed, eligible students and families are assured access to Guaranteed Student Loans. Otherwise, families may be unable to afford the costs of a college education or other training.

The Future of the Federal Role

In large part, it is the federal government that has, and will continue to, set the tone for public and private support of postsecondary education. As the federal government has identified priorities and refined its student aid policies, states, the private sector, and individuals have joined with the federal government in this effort. For example, as the federal government expanded its student assistance programs through the 1960s and '70s, states began to establish and build upon their own programs to provide aid directly to students. As noted in Chapter III of this report, states still consider continued federal incentives crucial to their own ability to support student financial aid programs.

As the role and composition of postsecondary education continues to evolve, the federal government must not only enhance its current efforts, but must look to the future and design new programs, or modify current ones, to meet anticipated needs.

While the federal student assistance effort has helped open many doors to postsecondary opportunities, there is still work that needs to be done to increase the participation of minority and low-income youth in higher learning. In addition, more effort is required to address the needs of the fastest growing sectors of postsecondary education—part-time and adult learners. Current federal efforts are not reaching many of these students; a thorough examination of their needs and the proper role for the federal government in assisting them is certainly in order. Of course, these efforts must be balanced with the need to further refine the traditional aid programs so that they, too, can better serve students and achieve their intended purposes. In a time of fiscal belt-tightening, it is even more important to involve all of the partners in any new initiatives. As the federal government explores these areas and redefines its role, it should gain strength from the knowledge that it is not alone in these efforts.

The Postsecondary Community: Keeping its House in Order

While all of the partners in financing and supporting postsecondary education are crucial to its future, postsecondary institutions must ensure that all of these dollars are being spent wisely and are being invested in a sound, secure enterprise—one whose house is in order. In recent years, almost every sector of education has come under scrutiny. For postsecondary education this scrutiny has been concerned with academic quality, the role of liberal learning, the ability of colleges and universities to respond to the demands of a "high-tech" society, and the value of student financial aid.

In response to national concerns over the quality of education, and the perception that students may not be receiving well-rounded educations, many colleges and schools are reinstituting or strengthening minimum course requirements. Many schools now require

liberal arts majors to take some courses in the sciences and direct science and math students to receive some training in the social sciences and the humanities. A number of institutions now require foreign language proficiency before granting diplomas.

Colleges, universities, state agencies, lenders, and others have all been working to reduce the incidence of default on student loans. This issue, more than any other, has threatened to erode public support for student financial aid. The image of college graduates, doctors, lawyers, and other professionals refusing to repay the funds that helped them through college has left a cloud over the student aid programs. In the past few years, the default rate on Guaranteed Student Loans has been brought under control—averaging less than four percent per year according to the American Council on Education.[68] Recent analyses of state efforts to recover defaulted loans indicates that they also are making great strides in collection and that most federal loan dollars are being returned to the federal treasury.

Need for Continued Federal Support

While the federal government is not the largest partner in the financing of postsecondary education, it is a key to the stability and equity of this enterprise. The federal government plays a role that is crucial to the financial and philosophical foundation of the American system of higher learning; a role that has its roots in the basic principles of American society.

In 1980, the Sloan Commission on Government and Higher Education described the facets of American higher education that set it apart from similar systems in other nations:

> The pluralism of America is reflected in the forms and purposes assumed by colleges and universities. . . . This immense diversity embodies to a remarkable degree the values of our society. It is unique to this country and one of our greatest strengths. Ours is the only country in the world that makes it possible for all high school graduates to find the kind of further education that suits their talents and desires.[69]

The federal government's largest investment in postsecondary education is in the form of student financial assistance; a program whose goal is to ensure equity and diversity and to provide students with access to higher learning. Augmented by programs such as TRIO, which assists needy and minority students in their transition to college, the federal student aid programs are formidable tools for promoting access and raising aspirations for millions of students and families. A retreat from the federal commitment to these programs will result in a less diverse system of higher education and an abandonment of the philosophies of opportunity and advancement that are keys to the present and future strength of this nation.

In addition to the dollars it provides, the federal government requires schools that receive federal money to adhere to certain rules and regulations. Many of these rules are intended to prevent discrimination and ensure the equitable treatment of students. Thus, the federal government uses its funds as leverage to advance the goals of equity and access.

The federal government is best suited to the task of ensuring equity. As previously discussed, states face many limits in their attempts to promote equity within postsecondary education. Their primary responsibilities are to the citizens within their jurisdiction and they must operate under guidelines and restrictions that vary from state to state, greatly complicating the goal of achieving national equity via state programs. Colleges and universities cannot be expected to replace the federal government as ensurers of equity; their diversity and difference in missions render them inappropriate for such a task. It is apparent that none of the partners can effectively substitute for the federal role in ensuring educational access and equity.

The President's Commission on Higher Education made this point in 1947. In its report to President Truman, the Commission stated that the concerns of higher education are so great that state and local governments could not possibly meet the needs of students and institutions. The federal government, it argued, must take a leadership role in financing higher education, but it need not be by itself:

> The role, therefore, proposed for the federal government is that of a partner—a partner jointly responsible with the states and localities for attaining the goals for higher education in a democracy.[70]

The Commission concluded that both governmental and nongovernmental sources of funds would be needed to effectively support higher education in the United States.

The funds and the initiatives provided by the federal government are also essential to the maintenance of the partnership. If the federal government abandons its commitment to higher learning, this will send a signal to states and the private sector that they too should rethink their support of postsecondary education. Federal involvement in student aid has sparked the development of state and private programs to assist students. Corporations are now following the federal lead in supporting basic research on college campuses. The ripple effect of federal policies is evident throughout the realm of postsecondary financing and should not be overlooked; policies and philosophies that begin in Washington, DC are expanded and supplemented by the many partners in the postsecondary enterprise.

The Meaning of the Partnership

The partnership in financing postsecondary education has been built on the mutual benefits that it provides to each of the partners. While all of the partners operate independently, they also operate in concert and with an awareness that each cannot do the job alone.

Each facet of the partnership involves symbiotic relationships—where each partner contributes something of value and receives something valuable in return. In awarding student aid, for example, the nation invests its resources in students—providing them the opportunity to attend college—and receives a better-educated society that uses its knowledge to advance the nation's goals, to add to the nation's tax base, and to enhance economic growth. Corporations donate equipment to university research centers and receive a tax break from the federal government, assistance in conducting needed research, and highly trained graduates who may become the corporate leaders of tomorrow.

In essence, the partners rely on each other; action on the part of one partner prompts another partner to become involved, with benefits accruing to all. Postsecondary education is a sound investment, whether judged on economic or social grounds, and deserves the continued support of all its partners. As Howard Bowen concludes:

> First, the monetary returns from higher education alone are probably sufficient to offset all the costs. Second, the nonmonetary returns are several times as valuable as the monetary returns. And third, the total returns from higher education in all its aspects exceed the cost by several times. **In short, the cumulative evidence leaves no doubt that American higher education is well worth what it costs.**[71] (emphasis added)

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